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Government of Ontario

Ministry of Community and Social Services

Business Transformation Project Review

**Volume 2,
Final Report**

HLB Project No. 6573

February, 1999

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Prepared by

HICKLING LEWIS BROD INC.

HLB Reference No. 6573

February, 1999



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Appendix D Business Case Development Guide for Common Purpose Procurement

1. ENSURING AND MEASURING VALUE

1.1. The MCSS – Andersen Consulting Agreement

Introduction

The recitals in the agreement between MCSS and Andersen Consulting dated January 27, 1997 state, in part, that:

“both Parties are entering into this Agreement on the understanding that all costs incurred by them in carrying out the Project and other amounts to which they may be entitled hereunder are to be paid from savings generated from the Project, and that while both Parties expect that savings will be achieved, there are no guarantees and, neither Party will be paid for any services or other costs incurred in connection with the Project until such time as benefits accrue ...”

This is a performed-based agreement that anticipates that both parties will diligently discharge their respective responsibilities in the pursuit of benefits. In the course of our review, there was observable dissonance in the relationship between the parties – Andersen complaining that the Ministry has not met expectations for the timely availability of qualified personnel and policy decisions to the project; and, the Ministry concerned that the dramatic rise in Andersen fees in 1997 has called into question the fairness of the benefit-sharing arrangement and the viability of the benefit cap of \$180 million in the agreement.

Notwithstanding the dissonance, the parties are progressing with the critical design phase of the project and are exhibiting a willingness to act reasonably and constructively on the issues cited here.

1.2. Expectations of Savings, Benefits Accrual and Returns

Consonant with Review Recommendation 3 – BTP Business Case Revalidation, the results of which are contained in Annex C to the report, we note and acknowledge that the business case support for BTP remains strong and that a benefit to the Ontario taxpayer of \$346.7 million (net of all associated costs), including both economic (\$297.2 million) and social (\$49.5 million), is the expected outcome of the investments of the parties.

Andersen Consulting assumes a significant portion of the investment financing and related risks of the BTP. In assessing the BTP business case, the net benefit to the Ontario taxpayer assumes that Andersen has recouped its investments up to the maximum benefit cap of \$180 million and has fully implemented the deliverables as agreed between the parties within that cap.

This forecasted outcome, a significant return to the Ontario taxpayer and Andersen Consulting, is consistent with the letter and intent of the agreement and appears balanced in terms of the relative costs and risks assumed by the parties.

In this respect, and in light of the public notice and controversy arising from the recent report of the Provincial Auditor, some further comment on the fees charged by Andersen appears warranted to, if nothing else, add to the public's perspective on consultants' fees in such situations in today's marketplace.

Much attention has been drawn to the magnitude of Andersen's professional fees.

A fair assessment of professional fees should be value-based but, in any case, should be derived from the average hourly billing rate calculated from the mix of personnel and rates actually deployed on the project. This assures the observer that the relatively high billing rate of an Andersen partner, for example, doesn't mistakenly leave the impression that such rates dominate project costs.

Indeed, Andersen's current average hourly billing rate of \$365.75 based on the mix of personnel actually deployed on the BTP at present includes some portion of Andersen's partners' time at \$550. per hour.

The current average hourly billing rate is expected to fall based on assumptions regarding the mix of partner, manager, consultant and analyst personnel that Andersen plans to deploy and the anticipated division of labour between MCSS and Andersen personnel.

Notably, the expectation is that the current average hourly billing rate of \$365.75 will drop to \$261.25 by year-end 1999 – a reduction of 28.5%.

The margin of profitability in value-based CCP contracts typically ranges from 25% at the low end to 35% near the high end. An important influence on this range of margins is the relative mix of professional services provided versus hardware/software procurement. Generally, the higher end of the range means a relatively high proportion of professional services and vice versa. Hardware/software procurement is low risk/low margin business. Professional services are relatively high risk/high margin business.

When the MCSS CPP competition was active, Andersen Consulting appears to have based its pricing and concomitant fees on its then current assessment of the project risk and its relative competitiveness. As a matter of reasonable conjecture, Andersen's fees at that time probably included margins in the typical range as described above.

The resultant agreement enabled the escalation of Andersen's fees to the level of its so-called "published" rates. And, since signing the agreement in January 1997, Andersen raised its rates to the maximum allowed by the contract. The increment of increase in rates that occurred on September 1, 1997 established Andersen's new rates at the very high end of such rates observed in the Canadian market for such services. This action by Andersen may, to a significant extent, be attributed to its perception that the risk profile of the BTP changed drastically from the time of its original proposal submission in late 1995.

The most obvious and, presumably, salient factors in Andersen's risk assessment would have been the significant slippage in the project schedule and the perceived unreadiness of MCSS to provide the needed qualified resources and policy decisions to the project in a timely way.

1.3. Explaining the Delays Incurred by the BTP

Some of the more obvious reasons cited by both parties for schedule slippage are:

- The plan to transform the delivery of social welfare programs in the province translated into a challenging amount of work to draft new legislation, policies and regulations that took much of MCSS management's time and attention during the first year of the BTP.
- As the transformation unfolded, more than twenty initiatives, representing separate streams of activity, with multiple cross-dependencies and requiring direct management attention, were identified. The BTP was only one of these initiatives.
- It was recognized early on that social assistance reform would result in significant disruption to the MCSS labour force. There was appropriate sensitivity to the need to approach the human resource management process carefully and in a way that respected the well-being of the affected personnel and that optimized their future employment opportunities. This resulted in significant delays in the BTP's access to field operations which, in turn, delayed the design and implementation of key early opportunities.
- In the course of the downsizing of the Ontario Public Service, early retirement programs afforded a number of senior people opportunities to leave public service and opened opportunities for promotion to others. The consequent "churn" had a significant impact on the BTP.
- From the outset, the ministry has recognized its obligation to supply adequate numbers of resources with the requisite skills and experience to the BTP. Meeting this obligation has been a significant challenge for a variety of reasons; the "churn" referred to above and the complexity of the recruiting process being two salient examples. The inability of the ministry to keep pace with the staffing obligations has, along the way, led to delays in the BTP.
- The need to assess the continued viability of the business case. On July 8, 1998 Andersen Consulting requested a Special Review as permitted by section 2.5 of the Agreement. This request was made because of concerns about the costs forecasted and the lower than expected level of benefits being generated at the time:

The project is arguably six months behind relative to original expectations. Delay of this magnitude over the life of a four or five-year project is noteworthy but not necessarily insurmountable. Andersen, as a worldwide consultancy with major operations in the government sector, knows only too well that schedule slippage is a prevalent threat. As such, Andersen has no doubt learned how to manage in such environments and how to mitigate its risk.

1.4. Mitigating Commercial Risk

The escalation in Andersen's fees is a means of mitigating commercial risk by maximizing the cumulative margin in the contract as fast as possible. This "Margin Bank" appears to be an important part of Andersen's commercial risk management strategy.

This measure is buttressed by the project management approach which, at its core, focuses the parties on the cost and benefits attributable to the current task order under consideration or in execution. The holistic project perspective is put at some risk in this approach whereas one would expect the parties to maintain a shared perspective on the overall project outcomes and the overall project return on investment.

1.5. The \$180 Million Cap (the Cap)

The Cap in the Agreement represents the maximum aggregate payments to be made to Andersen to account for a return on its direct investment, payment of interest charges and incentive payments. It was, at the time of contract signing in early 1997, the best estimate of cost on which the parties could agree. It was also understood that the parties may **mutually** adjust project functionality, level of effort or their respective responsibilities on a task order or project basis to remain within the Cap and to achieve the intended reform. Approved hardware and software acquisitions are not included in the expenditure limitations nor are applicable taxes.

To complete the work if the \$180 million Cap is reached beforehand, Andersen could conceivably expend a portion of its accumulated margin. A key test will be confirmation that the desired scope of work that can realistically be accommodated within the \$180 million Cap is acceptable to MCSS

1.6. BTP Outcome (Business Results)

The current agreement, being performance or value-based, is quite weak in terms of the clear specification of the expected outcomes of the BTP. The Provincial Auditor's overall conclusions are particularly pertinent here. That is, the Ministry had not sufficiently defined or established the project's scope and desired business results (outcomes) during the project's research and planning phase. And, since the Ministry had not adequately established the desired business results, it could not ensure that such results would be sufficiently measurable to decisively determine or agree on progress toward achieving them. The performance of Review Recommendation 3 – BTP Business Case Re-validation – has gone a long way to remedying these weaknesses.

1.7. Where from Here?

To ensure and measure the value of this (Andersen Consulting) service to the Ontario taxpayer, the Ministry management has recently taken the important step of revalidating the BTP business case. The revalidation process, consistent with Review Recommendations 2 and 3, included an exhaustive analysis of the risks confronting the BTP going forward. This risk analysis, unlike

that performed prior to the signing of the agreement with Andersen two years ago, had the very considerable benefit of past project experience and somewhat greater insight into the design, build and roll-out challenges that lie ahead. At this critical juncture and with the design of the Service Delivery Model (SDM) design in hand in the August 1999 timeframe:

Review Recommendation 1 – MCSS – Andersen Agreement – Ensuring Value

In light of past experience, the parties should, in considering improvements to their agreement that better ensure the value of the service, take account of the following recommended parameters:

- The results of the revalidated BTP business case including the effectiveness measures (business results) expected therein;
- The schedule risks (including those related to municipal readiness and access to third party data) exposed by the risk analysis conducted as part of the business case revalidation;
- Within reasonable limits, the government, represented by the Minister, would undertake to account for the cost and benefit effects of any proposed legislative or regulatory changes on the financial outcomes of the BTP before proceeding;
- Contemporaneously with the availability of statistical proof that improved effectiveness has arisen from the Consolidated Verification Process (CVP), verifiable statistical analysis also should determine the appropriate benefit duration period and actual dollar savings achieved by case type;
- The relatively high probability that the project could require about another three years to fully implement;
- The need to reflect the outcome of Review Recommendation 8 –“Value Index” Policy – so that the relative values of the contributions of each party to the achievement of BTP business results are recognized more appropriately in benefit sharing and so that a balance between investment and return to each party is maintained throughout the project;
- Upon mutual agreement to the scope of the SDM following completion of its design, the parties firmly commit to its full implementation. Such implementation is expected to be achieved within the current benefits cap assuming no further schedule delays;
- A lead role for MCSS managers and project staff in the SDM roll-out phase specifically and in change management programming generally;
- Prior to proceeding with the build and roll-out phases of the SDM implementation, a readiness assessment of MCSS’ capacity to perform the roles contemplated for it in the project plan is conducted and MCSS’ readiness confirmed;

- Delays in decision-making or the provision to the project of the necessary qualified resources in a timely manner are costly and such costs ought to be borne by the offending party . In this regard, consideration should be given to the validity of the benefits cap and of the 2-year limit on the benefits earning period following the term of the agreement as effective means of recovering benefits lost due to project delays caused by either party. The benefits earning period could be lengthened or shortened or the benefits cap raised or lowered, if necessary, based on delays caused by MCSS or Andersen respectively;
- The estimated six month unproductive delay in the course of the first two years of the BTP attributable to the lack of readiness of MCSS to perform its role should be recognized as a cost to Andersen in the context of these parameters;
- Performance standards for communications (status reporting, issue resolution, etc.) and decision-making (resource deployment, work product approvals, task order approvals, acceptance, etc.) should be more aggressive (timing, frequency, escalation, etc.) than currently formulated in the agreement; and
- After due notice is taken of any other amendments that may be made based on these and, possibly, other parameters, should agreement to the scope of the SDM and to its full implementation within the current benefits cap not be possible, the agreement should be terminated and competitive proposals sought for the implementation of the SDM design and scope acceptable to MCSS.

2. ADDITIONAL ACTIONS NEEDED – REVIEW OF PROVINCIAL AUDITOR’S FINDINGS

2.1. Introduction

You will find in the following sections, a restatement of each of the Provincial Auditor’s recommendations, a report on the consequential actions taken by the Ministry’s management associated with each recommendation and, for coherence and ease of comprehension, our associated recommendations, if any, for additional actions.

While we are in substantial agreement with the findings of the Provincial Auditor and the actions taken by MCSS management, and acknowledging that weaknesses in MCSS CPP management were evident, we are concerned that the issue isn’t so much the relative merits of CPP. Rather, the issue is the framework within which MCSS management can fairly report to the legislature when the matter at hand – the Business Transformation Project (BTP) -- has everything to do with the future effectiveness of the Ministry’s core programs and their delivery. CPP is incidental to that framework.

Since the mid-1980’s, the Canadian Comprehensive Auditing Foundation (CCAF) has provided both public sector managers and auditors with a suggested framework for reporting effectiveness. We commend the CCAF’s framework to the Ministry’s management as a good means of reporting effectiveness.

It is that sort of framework that helps the legislature to better understand public/private partnerships involving risk and reward sharing and the measurement of investment returns over long periods in a changing environment.

At the time of the recent audit, MCSS had not yet crystallized the BTP Blueprint and the design of the BTP solution based on which the business case support for the investment could be re-validated before going on. Pragmatically, moreover, as happens over the lengthy course of such projects in today’s public sector, several senior managers had been promoted or had accepted alternative career opportunities.

Nonetheless, MCSS management and the BTP project team have made significant gains to the point of our review and continue to strengthen the foundations for a successful project. Among these gains are a good project management framework, a BTP Blueprint and a comprehensive Service Delivery Model (SDM) design task order. We also note that the governance of BTP has been strengthened by the new Ministry management team in the course of our review. Included in these governance changes are, notably: the assumption of the Project Sponsor role by the Deputy Minister; the appointment of a new Project Leader; the formal engagement of the Ministry Management Committee; the appointment of a Project Director and the recruitment of a Contract and Risk Manager. Further, in order to maximize the focus on the BTP outcomes, the

Project Director's mandate will be focussed solely on BTP with the planned change in reporting of the Automating Social Assistance Project (ASAP).

More than anything else of significance in our review, we note with satisfaction that, with the new Ministry management team in place and the SDM task order being implemented, the MCSS business case has been revalidated to ensure that the return to the Ontario taxpayer remains strong and supportable. It is a seminal activity because it should ensure renewed consensus and commitment among stakeholders and be the basis for coherent communications and decision-making going forward.

2.2. Provincial Auditor's Recommendation 1

For future Common Purpose Procurement projects, the Ministry should adequately document its research and planning to clearly demonstrate whether or not the project meets the Management Board of Cabinet's requirements for such projects.

In addition, the Ministry should consider both other contracting arrangements and maximizing the use of its own internal resources. In cases where the Ministry selects neither of those arrangements, it should document the reasons for its decision.

2.2.1. Ministry Response

The Ministry recognized that Common Purpose Procurement (CPP) should only be used in special circumstances, and these led Management Board to approve the Business Transformation Project as a pilot.

The revised CPP guidelines that are being developed by Management Board recommend that ministries undertake a readiness assessment which includes a business case, a review of the options available to the ministry and a risk assessment. Upon completion of the preparatory work, approval from Management Board of Cabinet is required to proceed with the use of CPP.

Subsequent to signing this CPP agreement, the Ministry implemented stringent document management processes which will ensure that decision making is documented and that the documentation is maintained.

2.2.2. Action Taken

Ministry staff worked with staff in Management Board Secretariat to assist in the development of the revised CPP guidelines. Particular focus is being given to areas such as organizational readiness and transition and service management.

2.2.3. Additional Action Needed

A review of the Revised Common Purpose Procurement (CPP) Guidelines issued by Management Board of Cabinet on June 5, 1998 revealed important improvements to the earlier

CPP guidelines issued on November 15, 1995. These improvements include somewhat stronger guidance with respect to:

- Organizational Readiness
- Transition Management
- Service Management

each of which benefited from the advice of MCSS officials derived from “lessons learned” from BTP. Further CPP guidelines were issued by the Management Board Secretariat on October 30, 1998 providing significant new detail on whether:

- a project is suitable for the CPP approach; and
- the business case can be sustained over the life of the project

All in all, there appears to remain the need for policy guidance with regard to business case development and the inculcation of risk analysis into the development of the business case. The relevant BTP risk management regime arises from business case and risk analysis. And, so, MCSS has internally adopted the following policy:

Review Recommendation 2 – Business Case Development and Risk Analysis**

Business case analysis ought to be performed by MCSS to identify and select those investments most beneficial to the achievement of its defined desired business results (outcomes). Ministry officials will adopt the relevant means by which risks can be identified and managed for investment projects like BTP both at the point of initial investment decision and at every incidence of significant change during project execution. Such a means is the performance of risk analysis as part of business case development. Risk analysis is central to business case development and any risk-sharing business arrangements. Risk analysis is a particularly valid means by which to account quantitatively and transparently for uncertainty and risk in complex projects like BTP.

With risk analysis, it is reasonable to expect that, retrospectively, the risks and financial effects of the provision that enables Andersen Consulting to increase its billing rates from time to time to the level of its standard “published” rates would have been transparent to MCSS officials and, possibly, mitigated before the agreement and executed.

Because risk analysis ensures transparency, it enables tracking by management and auditability. Risk analysis facilitates cause-and-effect-driven quantitative forecasts of all Ministry and client benefit and cost metrics – both tangible and intangible. In each case, account is taken of uncertainty and risk.

Risk analysis begins with the specification and codification of the structure and logic model of the base case (where we are) and the base case redesign (where we want to be) in relation to outcome (business results) metrics.

Once done, all cause and effect variables in the model are quantified. Then, both the model and the quantitative analysis are exposed to the stakeholders in order to:

- find stakeholder consensus on the structure and logic model
- find stakeholder consensus on the median values in the model and the appropriate probability ranges for each variable
- simulate business case outcomes based on the validated model and probability ranges
- find stakeholder consensus on the business case outcomes

The risk analysis process flushes out the real and perceived risks allowing management to see their mitigation.

Risk management, the determination and resolution of all threats to the successful achievement of project objectives, is the primary concern of MCSS management. From a project's initial planning and organization through design, development and implementation stages, project risks should be assessed with due regard to the following categories of risk:

- Management Risk
- Political Risk
- Financial Risk
- Schedule Risk
- Contract Risk
- Technical Risk
- Forecast Risk
- Methodology Risk

or any others that may be germane to a particular project objective or outcome.

Review Recommendation 3 – BTP Business Case Re-validation **

The Ministry ought to apply its Business Case Development and Risk Analysis policy to the re-validation of the BTP business case and, in so doing, achieve the following objectives:

- Provide the quantitative framework within which architecture, technology, business process and implementation options and choices can be made with due regard for value-for-money and effectiveness.
- Provide the framework within which quantitative aims for BTP effectiveness can be established as management decisions.

- Provide the quantitative framework within which quantitative aims for return on investment (ROI) and risk can be established as management decisions.
- Provide the framework within which progress toward effectiveness aims can be monitored.
- Provide the quantitative framework within which returns on investment can be measured and monitored.
- Provide the operational business framework within which the MCSS Senior Financial Officer (SFO) can monitor financial outcomes.
- Provide the operational effectiveness framework upon which the auditor can rely for transparency and effectiveness measurement.
- Provide the framework within which the social benefits of BTP can be measured and accounted for in business and policy decisions.
- To quantify and monitor both MCSS and Andersen Consulting ROI.

Document Management

The BTP Document Management Process is thoroughly described in a memorandum dated October 3, 1997 to project personnel – specifically, Task Order Managers and Functional Coordinators.

Review Recommendation 4 – Document Management *

A review of the effectiveness of the BTP Document Management Process should be conducted by the Director, Information Systems Branch early in 1999 with a report of findings and recommendations to the Project Leader – BTP, Project Director – BTP and the Assistant Deputy Minister, Business Planning and Corporate Services.

2.3. Provincial Auditor's Recommendation 2

To help ensure that the most cost-effective proposal is selected for all future Common Purpose Procurement projects, the Ministry should enhance the selection process by:

- Demonstrating the risk/reward implications and overall value to the Ministry of each proposal; and
- retaining documentation on completed reference checks Ministry Response

2.3.1. Ministry Response

Consistent with the initial guidelines, the Ministry established the overall value, to the Ministry, of each proposal by including overall value as one of the evaluation criteria. At that time, overall value was based on a limitation to the amount of costs and risk to be assumed by the Ministry.

The revised Common Purpose Procurement (CPP) guidelines being developed by Management Board recommend a revalidation of a ministry's business case with the short-listed vendors during the selection process. This will further assist ministries and vendors with validating the financial and business model with respect to the sharing of risks and rewards at an earlier stage.

Subsequent to signing this CPP agreement, the Ministry implemented stringent document management processes which will now ensure that decision making is documented and that the documentation is maintained.

2.3.2. Action Taken

Ministry staff have worked with staff at Management Board Secretariat on revising the CPP guidelines. Revisions will help ensure that this ministry, or any other ministry considering CPP, will be better prepared to enter into a contract. As well, a due diligence phase will be added to the process to facilitate the vendor selection process.

New strict document management standards have been put into place.

2.3.3. Additional Action Needed

The recommendation under "additional action needed" to the Provincial Auditor's Recommendation 4 applies here insofar as the retention of documentation on completed reference checks is concerned.

To demonstrate the risk/reward implications and overall value to the Ministry for each proposal with a retrospective on BTP but with due regard to future CPP's, the new MCSS Business Case Development and Risk Management policy adopted under Review Recommendation 1 applies.

Review Recommendation 5 – MCSS' Future Common Purpose Procurements

In its application to future Common Purpose Procurements, MCSS' Business Case Development and Risk Analysis Policy (see Review Recommendation 2) will mean that:

- The Ministry's business case would be disclosed in a discussion paper and form part of the vendor consultation suggested in Management Board's revised CPP guidelines;
- The Ministry's business case (modified, where applicable, to reflect the vendor consultation) would be included in the subsequent request for proposals; and

- Vendor recommendations that would improve on the Ministry's business case would be evaluated as part of the determination of the risk/reward implications and overall value to the Ministry.

In this way, the differential value of the business case effects of each vendor's proposal is added to the other evaluation factors to assist in the demonstration of the risk/reward implications and overall value to the Ministry of each proposal.

2.4. Provincial Auditor's Recommendation 3

To help ensure that maximum payments under future Common Purpose Procurement agreements are reasonable and commensurate with the value of the work to be performed, the Ministry should:

- assess and compare the reasonableness of the maximum contract payment agreed to with the estimated cost of the work that may be reasonably expected to be performed; and
- clearly identify and segregate expected benefits directly attributable to the work to be performed under the agreements.

Also, if the Ministry anticipates that changes to a project's scope or the amount of work required for its completion may require changes to a contract, it should clearly state the criteria to be used for determining when such changes have occurred and for deciding how the maximum contract fee will subsequently be altered.

2.4.1. Ministry Response

Under Common Purpose Procurement (CPP), the parties jointly define the solution to an identified problem. Accordingly, the cap on payments negotiated by the Ministry after the successful vendor was selected is based on an understanding of the scope of the work contemplated in the original request for proposals. The cap on payments is not a guaranteed payment to the vendor; it is a maximum investment commitment. An adjustment to scope does not necessarily result in an increase to the cap on payments.

One of the premises of the CPP agreement is that savings can only be attributed to the Business Transformation Project if the Project contributed to the achievement of those savings. This contribution can include the development of tools and processes required to support the implementation of ministry policies. It is through the development and implementation of metrics (performance measures) that savings directly attributable to project work are measured.

In future CPP agreements, the Ministry will include additional criteria and processes for determining potential changes to project scope.

2.4.2. Action Taken

As part of the CPP process, a ministry must develop a business case which establishes the full range of financial and operational elements required to establish a performance-based business arrangement. As well, a due diligence process will be included in the revised guidelines. It should be noted that the maximum payment under CPP is not guaranteed payment but is dependent upon expenses being incurred.

In future CPP projects, the ministry will ensure that excluded costs are minimized.

2.4.3. Additional Action Needed

As the second anniversary of the BTP approaches and the decision to add a fifth year to the current four year contract is pending, it is noted that the Ministry has revalidated the BTP business case for its own account including, in light of present opportunities and constraints, a full risk analysis. This revalidated business case should become an operational tool for decision-support purposes going forward.

Review Recommendation 6 – BTP Business Case Custodian *

The Ministry's Senior Financial Officer (SFO) should be the custodian of the BTP business case. The SFO should provide the necessary business case and risk analysis services when Ministry management decision support is sought.

When, for example, any proposals that may affect the overall return on investment to the Ministry or to Andersen Consulting are brought forward, the logic and metrics (costs and benefits) of the proposed changes would be analyzed as an alternative to the then current BTP business case. If the proposals result in an improved return on the Ministry's investment, they would be favourably considered. If not, they'd probably be rejected.

2.5. Provincial Auditor's Recommendation 4

In order to more effectively estimate and control overall ministry payments for future Common Purpose Procurement projects, the Ministry should minimize the number of items excluded from maximum payment amounts. When items are excluded from maximum payment amounts, the items and the circumstances under which costs for them ought to be incurred should be clearly defined and estimated.

2.5.1. Ministry Response

The Ministry agrees that it is important to minimize the number of items to be excluded from a cap on payments. The Common Purpose Procurement (CPP) agreement identifies the items that are excluded from the cap on payments. These items include hardware, third party software, production support, help desk services and application maintenance. The costs associated with

these items will be confirmed at the lowest possible end user cost using the government procurement process.

In future CPP arrangements, the Ministry will more clearly define excluded items and will consider including an estimate of costs for those items.

2.5.2. Action Taken

None.

Review Recommendation 7 – Maximizing Return on Investment *

In its performance of the business case analysis in response to Review Recommendation 3, the Ministry ought to include all project costs. And, in assessing its risks associated with computer hardware, third party software, production support, help desk services, annual application maintenance costs and any applicable taxes, the Ministry should consider its options to minimize cost exposure and maximize the return on its investments.

2.6. Provincial Auditor's Recommendation 5

Future Common Purpose Procurement agreements should ensure that project savings are distributed equitably, based on the relative contributions of ministry and consulting staff, which will not necessarily correlate with the relative salary levels of ministry staff or the billing rates of consulting staff.

2.6.1. Ministry Response

The revised Common Purpose Procurement (CPP) guidelines being developed by Management Board recommend that an equitable distribution of benefits be established. In future CPP arrangements, the Ministry will look at alternatives to the distribution of benefits, in accordance with the guidelines being developed.

2.6.2. Action Taken

Ministry staff have worked with staff in MBS in the development of revised guidelines for CPP.

In future CPP projects, this ministry will carefully evaluate distribution of benefits to support equitable distribution.

2.6.3. Additional Action Needed

It is an accepted norm that some public sector incomes, especially at senior levels, are inferior to those of private sector counterparts on a total compensation comparable basis. These differences can appear to be especially pronounced when consulting fees are used as the basis for comparison. Consulting fees are based on VALUE and are typically constructed from the

addition of base salary, benefits, bonuses, overhead and normal margin with the further possibility of a risk premium.

To fairly associate public sector cost-based incomes with consultants' value-based fees, an economic concept of "Value Indexing" needs to be introduced. "Value Indexing" determines the relative value of the public servant which, unlike the individual's total compensation, is derived from factors such as knowledge, experience, leadership, accountabilities, results-produced and so on related to the specific business results of the project.

Review Recommendation 8 – "Value Indexing" Policy *

The Ministry, in comparing the value of its contribution to a BTP-like project with that of consultants when both parties are contributing to project costs in anticipation of proportionate benefits-sharing, should develop and apply a "value index" for its personnel reflecting their relative value to the project. Should the current agreement be amended, it should reflect such a "value index" with its concomitant effect on benefits-sharing.

2.7. Provincial Auditor's Recommendation 6

The Ministry should ensure that all necessary receipts of out-of-pocket expenses to be charged to the Business Transformation Project are received and reviewed by the project management office so that they can be checked for reasonableness and compliance with relevant expense policies.

2.7.1. Ministry Response

The Ministry is committed to accountability and is pleased that the Provincial Auditor brought this issue to our attention. Upon being notified of the issue, the Ministry obtained and reviewed the appropriate receipts, and they are now kept on site. All receipts will be kept on site in the future.

2.7.2. Action Taken

Receipts for out-of-pocket expenses are reviewed on monthly basis and are kept on site.

2.7.3. Additional Action Needed

None.

2.8. Provincial Auditor's Recommendation 7

To ensure that the benefits of the Ministry's Business Transformation Project are fairly distributed, the Ministry should include all of its costs related to that project in the project cost pool.

2.8.1. Ministry Response

The Ministry has now added the costs associated with Change Reporting systems changes to the cost pool. In general, costs for implementing new processes will be added to the cost pool.

2.8.2. Action Taken

The ministry will ensure that as task orders are developed, project related costs are added to the cost pool. Previous costs which were not in the pool but were project related, have been added.

2.8.3. Additional Action Needed

Review Recommendation 9 -- Financial Functional Control *

The Ministry's Senior Financial Officer (SFO) should exercise functional control with respect to the determination, qualification and allocation of BTP costs and benefits. In so doing, the SFO should be satisfied that all Ministry units and personnel expending effort or money in support of BTP see to it that all qualified expenditures are recorded and charged to BTP.

2.9. Provincial Auditor's Recommendation 8

If interest is charged on non-reimbursed costs for future Common Purpose Procurement projects, the Ministry should ensure that amounts paid are based on actual interest expenses incurred.

2.9.1. Ministry Response

All Project costs are eligible and reimbursable. Interest has been applied to the complete amount outstanding as per the standard billing approach. In future Common Purpose Procurement agreements, the Ministry will review alternative approaches to charging interest.

2.9.2. Action Taken

None.

The ministry will consider alternatives in the area of interest charges in future CPP arrangements.

2.9.3. Additional Action Needed

None

2.10. Provincial Auditor's Recommendation 9

The Ministry should ensure that if additional work is to be incorporated into the current or future Common Purpose Procurement projects, the benefits of that work as compared with the benefits of other alternatives are clearly established.

2.10.1. Ministry Response

The Ministry agrees that it is important to evaluate benefits compared with other alternatives. When additional work is to be included in a Common Purpose Procurement (CPP), the Ministry will assess the various ways of proceeding and select the alternative which represents the most value for the Ministry and is consistent with existing contractual arrangements and the need for integration into a comprehensive solution that supports the reform of social assistance.

CPP is a risk-based arrangement in which the vendor invests its own human and financial resources with no guarantee of payment. All of the work does not generate benefits. Many components of the work will improve administration without generating benefits. Some tasks do generate financial benefits and assist with balancing costs and benefits. To date, costs charged to the cost pool have been significantly higher than benefits.

2.10.2. Action Taken

In determining whether additional work is to be incorporated into this or future projects, the ministry will:

- Consider whether the work is within the scope of the contract
- Consider whether the work can be completed outside of the project without unduly adding to the risk of either partner
- Ensure that the devised outcomes of the project are taken into consideration in considering alternate arrangements

2.10.3. Additional Action Needed

Review Recommendation 10 – Additional Work **

In every case where additional work or design options are considered for the BTP, consonant with Review Recommendation 2, the benefits and costs of that work or those options ought to be subjected to complete business case and risk analysis in the context of the then current business case (the base case). In so doing, the available feasible alternatives to the base case should be analyzed to determine which yields the most attractive Net Present Value (NPV) or net benefit to the Ministry or to the government as a whole..

2.11. Provincial Auditor's Recommendation 10

To ensure that task order metrics fairly account for the relative contribution of savings by each partner in the Business Transformation Project, the Ministry should ensure that:

- amounts included in the benefit pool are accurately determined; and
- financial savings attributable to ministry staff adhering to previously established policies and procedures are not included in the project's benefit pool

2.11.1. Ministry Response

The Ministry is committed to ensuring that the amounts included in the benefit pool are accurately determined. As part of the ongoing metrics development process, a periodic review process had been established during the audit which reviews the assumptions and information related to performance measures. The Ministry is continuously reviewing the assumptions and information related to performance measures and, subsequent to the audit, has already adjusted both the baseline used to establish certain metrics and the resultant savings included in the benefit pool.

2.11.2. Action Taken

Metrics development is an ongoing process. Metrics developed for a task order are subject to review in order to determine if previous assumptions continue to be valid. Any adjustments to amounts included in the benefit pool are made retroactively.

In order to ensure that the metrics developed included appropriate assumptions, the ministry had a third-party review the process.

2.11.3. Additional Action Needed

None.

In revalidating the BDP business case, tests were applied by the HLB Business Case team to ensure that both baseline metrics and the value of incremental benefits attributable to BDP were verified. In no case, were benefits attributable to previously established policies and procedures included.

2.12. Provincial Auditor's Recommendation 11

The Ministry should take the steps necessary to ensure that the work under the agreement with Andersen Consulting supports the delivery of the Ontario Works program and the Ontario Disability Support Program with the revised business processes and technology solutions at the earliest opportunity.

2.12.1. Ministry Response

The Ministry is committed to ensuring that the necessary business processes and technology are in place as quickly as possible to support the delivery of Ontario Works and the Ontario Disability Support Program.

The Business Transformation Project has already successfully supported the implementation of several new business processes.

2.12.2. Action Taken

The thrust behind this project is to ensure that delivery agents have the tools required to support the reform of the social assistance system at the earliest opportunity

2.12.3. Additional Action Needed

Review Recommendation 11– Effective Program Delivery *

The Ministry management team ought to significantly strengthen the governance and control of BTP full expecting that the specific measures set out in Review Recommendation 14 will hasten the efficient delivery of needed support to the Ontario Works and Ontario Disability Support Programs.

2.13. Provincial Auditor's Recommendation 12

In future, the Ministry should fully establish the type of consulting expertise it requires prior to the competitive selection stage to help ensure that selected proposals offer all the needed services.

To be able to demonstrate the basis on which a successful vendor was selected and that the selection and that the selection process was fair, the Ministry should prepare and retain rating sheets or other documentation for every proposal received and evaluated.

In instances where it is deemed necessary to sign or revise an agreement for more than the proposed fee, the Ministry should clearly establish and document the reasonableness of the revision and the basis for its approval.

2.13.1. Ministry Response

The Ministry agrees that the need for consulting services, initially and for any revisions, should be clearly defined and that the documentation regarding the resulting process is retained.

Subsequent to signing this consulting agreement, the Ministry implemented stringent document management processes which now ensure that decision making is documented and that the documentation is maintained.

2.13.2. Action Taken

In future, the Ministry will determine the level and type of consulting expertise required to support the selection process in CPP.

As well, the Ministry will adhere to the stringent document management processes now in place.

2.13.3. Additional Action Needed

None.

2.14. Provincial Auditor's Recommendation 13

To protect the independence and objectivity of the Quality Council's work, all members of the Quality Council should be free of any actual or perceived conflicts of interest.

2.14.1. Ministry Response

The Ministry will ensure that there is no real or perceived conflict of interest on the Quality Council.

2.14.2. Action Taken

A Ministry representative will be added to the Council.

2.14.3. Additional Action Needed

None

3. MANAGING THE CPP AGREEMENT

3.1. Introduction

The adoption by Ontario in 1995 of a Common Purpose Procurement (CPP) policy direction as a new method of procurement for goods and services related to information technology (IT) – based solutions, business process reengineering, outsourcing, etc. is consistent with the choices being made in other jurisdictions in response to the public sector change dynamics of the 1990's. These dynamics have become the mantra of public administration generally and the management of programs and delivery of public services specifically. They include, for example: deficit elimination, debt reduction, public service employment cuts; decentralization of program delivery; improved service to the public; and, better targeting of program benefits. Some market effects of these changes are noteworthy. They include:

- Some loss of competencies and experienced public servants arising from downsizing and early retirement programs;
- Reduced capacity to recruit and retain key personnel in high employment/high wage functions such as information technology ; and
- Increased reliance on public/private partnerships to maintain or improve on service levels and program effectiveness

It is these very dynamics that have given rise to CPP and variations thereon, for example, in the Canadian (see Annex A) and the United States (see Annex B) governments.

3.2. Comptrollership (Measures to Strengthen)

Late in 1997, the Canadian Comprehensive Audit Foundation (CCAF) published the findings and recommendations of its Independent Review Panel on the Modernization of Comptrollership in the public sector. We observe that the issues and the environment confronting the management and staff of MCSS appear to be quite consistent with some of the Panel's key observations.

The Panel, made up of eminent Canadians from the private sector, noted that:

“Executives and general managers, and their support specialists and professionals throughout government, are being challenged in all areas (accountability, service quality and efficiency, responding to change, stewardship and public trust and principles of fairness and equity in dealings with all Canadians). In particular, they cite the following as areas that increasingly demand managerial excellence:

- the accomplishment of solid results using new delivery approaches and working with fewer people;
- identifying priorities and assigning scarce resources in support of them;
- adopting and deploying new approaches to maintain meaningful control and accountability both in their own ministries and when using alternative service delivery arrangements;
- ensuring that appropriate values attend these new arrangements;
- managing, receiving and using meaningful and reliable performance information;
- reporting, explaining and being accountable for results as well as processes and inputs;
- matching more creative and client-driven decision making and business approaches with solid risk management;
- creating an environment in which taking risks and the consequences of doing so are handled within a mature framework of delegation, rewards and sanctions”.

Ultimately, these matters are also of concern and interest to ministers and the legislature.

The federal Auditor-General, in commenting on innovation and sensible risk-taking in the public sector said, in his most recent 1998 report to Parliament, in part:

“There are forces, however, that many observers believe militate against risk taking and innovation. These include the effects on public servants’ morale of such interrelated factors as downsizing, the long wage freeze that ended only last year, and a perceived lack of support. At the same time, more openness and a greater level of public accountability for results can sometimes unleash undeserved criticism when results fall short of expectations. In these circumstances, many public servants may feel the most prudent course is to play it safe We – the public, parliamentarians, public servants and this Office – have to work together to help remove the constraints and find ways to encourage the innovation and responsible risk taking that are required now more than ever.”

3.3. BTP Effectiveness

The management of the Ministry of Community and Social Services (MCSS) will be called upon to make representations on the effectiveness of BTP throughout its development and operational life. These representations will, at different times, be made to the Minister, to Management Board of Cabinet, to the Ontario Legislature, to the media, etc. BTP will also be subject to periodic audit by the Provincial Auditor who, in the absence of any other standards against which

to audit for compliance, will rely on MCSS management's representations. In so doing, the auditor will form opinions as to the fairness of the information that management has reported. In particular, the auditor will report to the legislature on instances where there has been a lack of due regard to economy and/or efficiency and where there are inadequate processes for measuring and reporting effectiveness.

Review Recommendation 12 – BTP Effectiveness Reporting **

The management of the Ministry ought to be ready to make representations on the effectiveness of BTP throughout its development and operational life. It is recommended that MCSS adopt the following Canadian Comprehensive Auditing Foundation -- suggested effectiveness attributes for BTP:

Management Direction: the extent to which the objectives (outcomes) of BTP are clear, well-integrated and understood, and appropriately reflected in MCSS' plans, structures, delegations of authority and decision-making processes;

Relevance: the extent to which BTP continues to make sense in regard to the problems and conditions to which it is intended to respond;

Appropriateness: the extent to which the design of BTP, and the level of effort being made, are logical in light of the specific objectives to be achieved;

Achievement of Intended Results: the extent to which BTP objectives have been or are expected to be realized;

Acceptance: the extent to which the stakeholders in BTP judge it to be satisfactory (to their needs);

Secondary Impacts: the extent to which other significant consequences, either intended or unintended, positive or negative, have arisen as a result of BTP;

Costs and Productivity: the relationship among costs, inputs and outputs resulting from BTP;

Responsiveness: BTP's ability to adapt to changes in such factors as case volumes, program design, available funding, technology, etc.;

Financial Results: the matching of, and accounting for costs and benefits arising from BTP and the accounting for and valuation of assets and the return to the Crown on BTP investments;

Working Environment: the extent to which the BTP provides a productive work atmosphere for MCSS employees, appropriate opportunities for their development and success, and promotes commitment and initiative;

Protection of Assets: the extent to which important assets – such as intellectual property, sources of supply, key personnel, important records and information, software, etc. are safeguarded so that BTP is protected from the danger of losses that could threaten its success, credibility, continuity, etc.;

Monitoring and Reporting: the extent to which key measures pertaining to performance and organizational strength are identified, reported and monitored;

To portray BTP's effectiveness in a balanced way, MCSS management should adopt all the above attributes so that third parties, especially legislators, can form a balanced judgement on effectiveness.

3.4. BTP Project Governance and Control

BTP is not simply another information technology project. Rather, BTP is the new business process for Social Assistance Program delivery in Ontario. It is an enabling element to greater program effectiveness including implementation of single tier program delivery. BTP will enable stronger service level performance and contribute to MCSS efficiency goals. Information technology is incidental to these outcomes. BTP is integral to the core business of MCSS.

Review Recommendation 13 – BTP Governance and Control *

The work of BTP ought to be integrated within existing MCSS processes and structures. Such integration means that, for example:

- The ADM, Business Planning and Corporate Services will exercise full functional control and provide support services in finance, human resource management and contract management; and
- The ADM Program Management will exercise full functional control and provide support in operations during the design, build and, especially, the roll-out phases of the BTP;
- The Director, Communications and Marketing will exercise full functional control and provide support services in communications planning and delivery.

In addition, the recommended governance of the BTP includes nine core elements: the Ministry Management Committee, the Project Sponsor, the BTP Steering Committee, the Project Leader, the Project Executive Director; the Project Director; the Quality Council; the Contract and Risk Manager, and, the Internal Audit Mandate. The roles of each of these core elements are set out in Sections 3.4.1 to 3.4.9 inclusive.

3.4.1. Ministry Management Committee

The Deputy Minister of MCSS has administrative and operational accountability for the Ministry. Because BTP is integral to the core business of MCSS, the Deputy Minister exercises accountability for BTP's outcomes through the Management Committee where significant direct and collateral impacts and risks can be determined and resolved.

Members of the Management Committee with direct or collateral interests and obligations regarding BTP will specify those interests and obligations in Memoranda of Agreement with the BTP Project Office. The Memoranda of Agreement will include, for example, the relevant objectives, roles, responsibilities (e.g., the exercise of functional control) and undertakings (e.g., the provision of services or resources to the BTP) of each division head at the Management Committee table in committing to the success of the BTP. The Deputy Ministers' concurrence to each Memorandum of Agreement is necessary.

The Management Committee has, as a standing agenda item for review monthly, the status of the BDP Project Plan including schedule analysis, budget analysis and project resourcing. The MCSS BDP Executive Director is responsible to present this monthly status report.

3.4.2. Project Sponsor

The Project Sponsor is responsible for ensuring that the Ministry understands the value and importance of BTP. Ultimately, the Project Sponsor is accountable for realizing the benefits forecasted for it. Because BTP is integral to the core business of MCSS and has such pervasive multi-divisional and intergovernmental impacts, the Deputy Minister is the Project Sponsor.

3.4.3. BTP Executive Committee (formerly the "Steering Committee" in the Agreement)

The mandate of the BTP Executive Committee is to provide regular executive guidance, in the form of both approval and advice, to the BTP Project team. The Committee's responsibilities include:

- Ongoing review and acceptance of the BTP master plan;
- Annual acceptance of the Task Orders to be undertaken in each fiscal year and review when:
 - scope is significantly changed, increased or decreased and/or
 - projected cost is increased by more than 5% and/or
 - schedule for delivery is delayed by more than two weeks
- Commitment of resources from the Parties to fulfill Task Orders;

- Arbitrate disputes between the Project Directors, including the option to use senior management and an independent third party in accordance with Section 19 of the Agreement;
- Resolution of issues raised by the Project Management Office for the Steering Committee's attention;
- Identification of issues requiring the establishment of strategic direction across MCSS;
- Participation in the Project's risk and quality management processes;
- Implementation of Quality Council recommendations;
- Senior management linkages to broader MCSS and government planning processes;
- Review and monitoring of the Financial Arrangement.

The composition of the Executive Committee (formerly the "Steering Committee") is:

Chair:	Assistant Deputy Minister (ADM) Social Assistance & Employment Opportunities (SA&EO)
MCSS Members:	ADM Program Management ADM Business Planning and Corporate Services
Andersen Members:	Managing Partner, Government Services Canada Managing Partner, Ontario Government Services
Project Directors:	BTP Project Executive Director BTP Project Director Andersen Project Director

The Chair of the Executive Committee is accountable to the Deputy Minister of MCSS.

The Executive Committee will meet at the discretion of the Chair. A summary status report will be prepared by the Project Management Office and distributed to all Committee members bi-weekly. The Committee will define its own approval protocols.

3.4.4. Project Leader and Chair, Executive Committee

On behalf of the Deputy Minister, the Project Leader (the Assistant Deputy Minister, Social Assistance and Employment Opportunities) has executive responsibility for BTP, providing

direction within delegated authorities related to: the performance of the approved project plan and budget; and, interdivisional and intergovernmental coordination. Such coordination is basically facilitated within MCSS through Memoranda of Agreement.

3.4.5. Project Executive Director

Reporting to the Project Leader, the MCSS Project Executive Director is accountable specifically for achieving the defined project objectives within the approved plan and budget. In this regard, the Project Executive Director is responsible for the effective management of the relationship with Andersen Consulting (AC). Effective relationship management embraces those concepts and specifications set out on pages 48, 49 and 50 of the Management Board's Secretariat's Guidelines for Common Purpose Procurement dated October 1998. Effective relationship management also includes the optimum balancing of MCSS and AC resources to maintain the approved project plan and budget and the exercise of quality control on the resources provided by AC and MCSS. The Project Executive Director must ensure that the project team has all the necessary competencies required by BTP. This responsibility requires the careful determination of the factors that demand particular skills or expertise, whether sourced from MCSS or AC, then staffing the project to include them. On behalf of the Project Leader, the Project Executive Director manages all external aspects of the BTP to facilitate the achievement of BTP objectives. The Project Executive Director is the primary contact for the AC Project Director and the AC Partner-in-Charge. The Executive Director's specific duties include:

- Provide strategic leadership to the Project including management of the AC relationship;
- Obtain appropriately skilled staff to fulfill the requirements of each Task Order;
- Communicate the Project goals, operational and organizational philosophies, policies and progress – within the Project, within MCSS and to external stakeholders;
- Manage the Financial Arrangement defined in Schedule “B” of the Agreement;
- Represent the Project to all organizations, and in all activities, carrying the full authority and responsibility of the Project as it pertains to the obligations and responsibilities of the Project;
- Approval of all Task Orders and change orders;
- Approval of Service Level Agreement Key Milestones with respect to Critical Task Orders;
- Review and approve updates to Project management (Schedule “D”) and to the Project management Task Order (Schedule “E”) as appropriate, including submission of Project management change orders to the Steering Committee as appropriate;

- Acceptance of Project Deliverables in accordance with Section 9 of the Agreement;
- Participation in MCSS management structures (e.g., the Steering Committee);
- Sharing information regarding Common Purpose Procurement (CPP) to other government agencies;
- Bi-weekly project status reporting to the Ministry Management Committee.

As the BTP moves through the current design phase and into the so-called “Build” and “Roll-Out” phases, the balance of project resources should begin shifting toward an increasing proportion of MCSS staff particularly to manage and execute the roll-out of the new systems and processes and to assume their operational control within the context of the permanent MCSS structures. It is this growing dependence on MCSS resources and concomitant operational and change management demands that lead one to conclude that a Project Director is a necessary addition to the MCSS team. Thus, a “two in a box” leadership structure – the Executive Director and the Project Director – is proposed.

3.4.6. Project Director

Reporting to the Project Executive Director, the Project Director, whose primary skills and experience relate to change management in the MCSS environment, is responsible for the management of all internal aspects of the BTP. This person ensures that the appropriate qualified resources are effectively deployed and managed to achieve the BTP objectives. The Project Director stands in for the Project Executive Director and, reciprocally, represents critical continuity in the absence or incapacity of either party. The direction and control of all MCSS resources deployed in the BTP are the responsibility of the Project Director as is the day-to-day working relationship with AC project personnel. The Project Director’s specific duties include:

- Manage the day-to-day project activities to accomplish the Project’s mission within the scope of the Project and the Project master plan;
- Execute the Project management processes;
- Provide direction and guidance necessary to ensure successful implementation of the Project in all functional areas, to facilitate the establishment of proper interfaces, completion of critical assignments within accepted quality objectives, on schedule within the allocated budgets;
- Designate specific authorities for the assign resources to Task Order planning;
- Ensure Service Level Agreements for Critical Task Orders are developed as required;
- Recommend approval of all Task Orders and change orders;

- Human resource performance management of all MCSS and Municipal personnel assigned to the Project;
- Recommend acceptance of Project Deliverables in accordance with Section 9 of the Agreement;
- Liaison with SA & EO directors and other areas of MCSS (including the Information Systems Branch on issues dealing with CIMS and MAIN);
- Government financial tracking;
- Reporting requirements to Management Board Secretariat;
- Responding to FIPPA requests as appropriate.

3.4.7. Quality Council

The Quality Council provides advice to the Project Sponsor regarding the needs of the BTP stakeholders, inside and outside of MCSS, and the appropriateness of the means available to satisfy those needs. The Deputy Minister, as Project Sponsor, chairs the quarterly meetings of the Quality Council.

The Quality Council will be comprised of MCSS appointed and Andersen quality leaders, and include municipal membership. The Quality Council will operate in a complementary way to the Project's Quality Management function. Whereas Quality Management focuses on day-to-day delivery of stakeholder expectations, the Quality Council provides independent oversight and identifies future potential quality issues. Through periodic quality reviews the role of the Quality Council is one that:

- Ensures that the Project stays focused on the needs and expectations of the Parties by evaluating the execution of the Project's quality plan;
- Validates that current, and future, commitments made by the project are achievable;
- Provides the Project Directors with coaching and independent advice at arm's length from the Project.

3.4.8. Contract and Risk Manager

Reporting functionally to the ADM, Business Planning and Corporate Services and operationally to the BTP Project Executive Director, the Contract and Risk Manager will ensure that the terms of the agreement dated January, 1997 between Andersen Consulting and MCSS are met and that the Crown's interests are protected. In addition, the Contract and Risk Manager will maintain a current list of identified risks arising from the BTP Business Case and Risk Analysis. From that list, the Manager will continuously analyze the risk mitigation actions of the offices of primary

and collateral interest in specific risk areas and report progress to the Project Executive Director. In his contract management role, the Manager will recommend payment under the agreement when: the work has been performed; the goods supplied or the service rendered; and, the amount is consistent with the terms of the agreement. On behalf of the Project Executive Director, the Manager will be the first level of contract dispute resolution before engaging the formal dispute resolution mechanisms contemplated in the agreement.

3.4.9. Internal Audit Mandate

In co-operation with the Contract and Risk Manager and with the approval of the Assistant Deputy Minister, Corporate Services and Business Planning, the MCSS Internal Auditor will, based on the current risk management profile of the BTP, include periodic audits of the risk mitigation measures and outcomes.

3.5. Relationship Management

Review Recommendation 14 – Relationship Management *

Within the governance structure recommended for BTP, a key to the effectiveness of the relationship between MCSS and Andersen Consulting is the quality of communications between the two parties and the decision-making that arises therefrom. Just as the project plan sets rigorous performance standards for performance of the work itself, so should the parties set performance standards for communications (status reporting, issue resolution, etc.) and decision-making (resource deployment, work product approvals, task order approvals, acceptance, etc.) more aggressive (timing, frequency, escalation, etc.) than those found in the current Agreement.

The better are day-to-day communications, typically, the better is the problem solving and decision-making. In large complex projects, frequent communications events are a tried and true model for success as is the maintenance of records of decisions and a list of unresolved issues. Agendas for meetings at any level are helpful so long as an element of open-endedness is allowed.

In addition, insofar as delays in decision-making can impede the progress of the project schedule and deliverables, the escalation process should not tolerate delays at each level of the decision-making or escalation chain assuming, of course, that adequate staff work (the responsibility of the Project Management Office) has been completed for the decision-makers. Notably, a key area of communications is the management of changes to the project whether in project management, metrics, design, etc. The change management process set out in the project management regime for the project is a good one and should be performed by the parties rigorously as a key success factor.

3.6. Automating Social Assistance Project (ASAP) and the BTP

The degree and specific nature of the interdependence between ASAP and BTP will be knowable when the current BTP Service Delivery Model (SDM) design requirements are known in the late summer of 1999. It is anticipated that most of that interdependence or value transfer between the two projects will be infrastructural not functional. In other words, in terms of outcomes, they are two separate and distinct projects. Their respective significance as management challenges warrants focussed attention. At the moment, the BTP Project Director has responsibility for both projects. The explanation for this condition appears to be historical. That is, the previous Project Director brought ASAP into BTP because, at the time, it was part of the Business and Technology Integration Branch.

Review Recommendation 15 -- Automating Social Assistance Project (ASAP) *

As the project enters its third year, the scope and significance of BTP is much better known and the need for focussed management to achieve its outcomes is palpable. Similarly, ASAP's needs are significant and worthy of focussed management attention in their own right. However, ASAP is dealing with the "now" needs of MCSS while BTP is the "future" of MCSS program delivery. Accordingly, it is recommended that:

- ASAP should report to the Assistant Deputy Minister, Business Planning and Corporate Services; and
- BTP should continue to report to the Assistant Deputy Minister Social Assistance and Employment Opportunities as is now the case.

These two executives should, by formal agreement, ensure that current and future interdependencies are identified and attended to in a timely and responsive manner.

4. THE BUSINESS CASE

The business case analysis of BTP indicates both (i) a strong probability of positive returns to the taxpayers of Ontario, and (ii) a material risk of negative returns unless key uncertainties are managed and their effects mitigated.

4.1. Expected Business Returns

Expected business returns -- returns arising under central forecasts of BTP costs, schedule and performance -- may be summarized in terms of (i) life-cycle net benefits; (ii) return on investment; (iii) the economic value of social benefits; (iv) net benefits at "steady-state" (full BTP functionality); and (v) the effect of cost sharing with the private sector.

4.1.1. Net Benefits

As shown in Table 1, the realization of central cost, schedule and performance projections means that the BTP investment program would yield \$297.2.0 million in benefits net of all costs (in present-day dollars of 1996 purchasing power over the 1996-2003 life-cycle of the CPP contract, discounted at five percent per year). Benefits arise in the form of (i) productivity gains in the MCSS administration of OW and ODSP, and (ii) reductions in the volume of inaccurate payments under these programs.

TABLE 1: BTP LIFE-CYCLE BUSINESS CASE RESULTS (Benefits minus Costs over the Period April 1996 to March 2003, Excluding Social Benefits)

(Present-day value, at five percent discount, in millions of current dollars)

	Expected Outcome	There is a One Percent Probability that NPV will be:	There is a Five Percent Probability that NPV will be:	There is an 80% Probability that NPV will be:
Net Benefits (NPV)	\$297.2m	(\$8.2m)	(\$42.9m)	\$150.3m

Notes:

- 1) Base caseload of 591,000 cases in 1996/1997, using September 1998 forecast.
- 2) Labour rates include annual escalation factors of 8% for Andersen Consulting and sub-contractors, and 5% for MCSS and sub-contractors (applies to costs and benefits).
- 3) Cost information based on Andersen Consulting supplied workdays.
- 4) Schedules developed during January 28 Session.
- 5) 30% of the active caseload is assumed to have an overpayment under base and BTP figures.

As shown in Table 2, the business benefits of BTP are manifest in improved quality of service to OW and ODSP recipients.

TABLE 2: BTP SERVICE QUALITY EFFECTS (at Steady-State)

<i>Service Quality Performance Indicator</i>	<i>Without BTP</i>	<i>With BTP</i>	<i>Effectiveness Improvement</i>
Percent of Eligibility Decisions Made Correctly	94.5%	95.9%	1.5%
Percent of Payments Made in the Correct Amount	72.8%	90.6%	24.5%
Percent of Social Assistance Payments Made on Time	95.5%	98.4%	3.0%

4.1.2. Return on Investment

Central projections indicate a cumulative seven-year return on BTP investment of 222 percent (Table 3). High returns of this magnitude indicate that modernizing MCSS business processes is sharply overdue. Had such investment been made earlier, returns would have been lower, yet nevertheless acceptable, while Ontario taxpayers would have not have waited a protracted period of time for greater effectiveness and efficiency in the administration of social assistance.

**TABLE 3: BTP RETURN ON INVESTMENT (excluding social benefits)
(in percent)**

	Cumulative ROI at the end of year shown
1998-1999	149
1999-2000	156
2000-2001	117
2001-2002	107
2002-2003	222

4.1.3. Economic Value of Social Benefits

The results outlined above account for gains in productivity and reduced program outlays. Central forecasts indicate that BTP will also yield an additional \$49.5 million in net social benefits to recipients of OW and ODSP over the first seven years of the program (1996 to 2003, in present-day value at five percent discount). These benefits arise in the form of less delay for clients in applying for and obtaining legitimate social assistance. Client time savings have economic value because they facilitate less delay in obtaining assistance and more ready access to employment opportunities. When the economic value of these social benefits is combined with gains in MCSS productivity and spending reductions, total net benefits rise to \$346.7 million (\$297.2 million plus \$49.5 million).

4.1.4. Steady-State Benefits

The results above are reported on a life-cycle basis so as to account for lower benefits during the multi-year roll-out and ramp-up of BTP systems and business processes. Central projections indicate that BTP processes will be operating in "steady-state" (full functionality and productivity) by year eight of the program (2003-4). Table 4 indicates that at that time annual benefits (excluding social benefits) will have reached \$718.8 million while the major fraction of BTP costs will have been incurred in previous years. Steady-state net benefits will thus reach \$694.3 million by year eight of the program.

It is noteworthy that the roll-out of "early opportunity" investments (CR-1, CR-2 and CVP) has generated positive net benefits on an annual basis (for 1997/98 and 1998/99). While going forward, the BTP investment program can expect two years of negative returns, the early accumulation of positive outcomes means that cumulative rates of return remain positive in each year of the seven-year development and roll-out program (see Table 3).

**TABLE 4: BTP ANNUAL AND STEADY-STATE (EIGHTH YEAR) COSTS, BENEFITS
AND NET BENEFITS (excluding social benefits)
(in millions of current dollars)**

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Total Benefit in year shown	0	32.0	64.7	65.2	62.0	79.1	439.8	718.8
Total Cost in year shown	0	3.7	61.4	38.8	86.8	93.6	49.7	24.5
Net Benefit in year shown	0	28.3	3.3	26.4	(24.8)	(14.5)	390.1	694.3

4.1.5. Cost Sharing with the Private Sector.

The results outlined above account for all BTP costs and all resulting BTP benefits. However, present CPP financial arrangements between MCSS and Andersen Consulting entitle the consultant to benefits payments of no more than \$180 million, an amount that may lie beneath the consultant's cost of delivering total BTP functionality at its present billing rates. If Andersen Consulting nonetheless delivers total functionality within the \$180 million payment "Cap," net benefits from the perspective of the provincial taxpayer will exceed the \$297.2 million value cited above by the difference between the Cap and Andersen Consulting's cost. From the perspective of total costs, however, regardless of whether they are borne by the taxpayer or Andersen Consulting, the net present value remains unchanged.

4.2. Risk Analysis

A number of material risks confront BTP management in seeking to achieve the central forecasts reflected above and thus deliver positive business returns. These include (i) schedule risk; (ii)

the risk of failure to achieve targeted levels of effectiveness; (iii) the risk of inaccurate case load forecasts; and (iv) the risk of inaccurate assessments of the opportunity cost of capital.

Schedule Risk. A dominant risk is that of slippage in the roll-out and ramp-up of key processes and support technology. Analysis of potential slippage risk, taken together with the effects of all other risk factors, indicates a five percent probability that that BTP costs will exceed BTP benefits by more than \$28 million, and a one percent risk that costs will exceed benefits by more than \$117 million – (Table 1 -- in present-day dollars of 1996 purchasing power over the 1996-2003 life-cycle of the CPP contract, discounted at five percent per year). On the other hand, sound and aggressive risk management of the schedule is found to offer substantial rewards. As compared with the baseline schedule, each month of accelerated roll-out and ramp-up yields five percent greater net benefits. While aggressive risk management and mitigation of schedule risk itself carries a cost, the business case for such activity is very high.

Effectiveness Risk and the Crystallization Process. Benefits in the form of improved productivity and reduced program outlays arise when BTP business processes trigger more effective MCSS performance in administering intake and eligibility monitoring and benefits-management activities. Delay in achieving provably greater effectiveness will delay, and weaken, business case returns.

Multivariate statistical analysis indicates that improved effectiveness can be confirmed in relation to the introduction CR-1 and CR-2 in September 1997 and that provable business and social benefits are accruing accordingly. On the other hand, statistical analysis does not yet confirm that improved effectiveness has arisen from CVP, as introduced in April 1998. Since a full year or so of experience may reasonably be required in order to ascertain such proof, the absence of confirmed CVP benefits as of November 1998 is notable though not alarming.

On the other hand, failure to ascertain the emergence of such proof with eight months of CVP experience should be viewed as an emerging risk and managed accordingly. Since at present the process of crystallizing effects and benefits, while rational and well documented, does not include tests of statistical proof. Such tests should be incorporated into the process as part of an improved risk management framework.

Client Base. The client base is a risk factor because the benefits of BTP are found to fall more quickly than BTP costs as the number of active cases declines (or rise more quickly with growth in the number of active cases). Although case load would need to decline substantially more than projected under even the most optimistic economic outlook in order to materially dilute the business case for BTP as it is currently scoped, risk managers should recognize the link between the net benefits of BTP and the size of the case load and seek opportunities to manage the timing and scope of project outlays accordingly.

The Opportunity Cost of Capital. Results reported above assume a provincial opportunity cost of capital of five percent (in dollars of current purchasing power). While this is consistent with current market conditions, governments at times apply above-market discount rates in appraising public investments as a means of guarding against the risk of crowding-out more productive

private sector investments. At a ten percent discount rate for example, the expected net present value of BTP reported in Table 1 falls from \$297.2 million to \$216.7 million.

Economic reasoning supports the lower discount rate in the case at-hand, however, for two reasons. First, the willing participation of a private sector firm in sharing the investment risk of BTP indicates that crowding out is not occurring. Second, economic theory supports a lower discount rate for social investments on the grounds that capital markets understate the rate at which society is willing to defer consumption in order to sustain a minimum state of health and nutrition for those in need.

4.3. Opinion

HLB Inc. believes that the BTP investment program, in its present state of design and scope, offers a sufficiently high probability of positive business case returns and sufficiently low risk of negative returns to justify the magnitude of investment funds budgeted for the acquisition of associated goods and services.

HLB Inc. analysis indicates the need for aggressive steps to manage risk and mitigate against the effects of uncertainty, particularly in relation to, (i) adherence to the scheduled roll-out and ramp-up of BTP business processes and supporting technologies, and (ii) timely statistical proof of system effectiveness and crystallized benefit. Failure to manage and mitigate these risk poses a material risk that BTP will yield negative business case returns.

